

Message Text

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E.O. 11652: ENRG, EFIN, ID, RP

SUBJECT: PHILIPPINES CONTRACTS FOR INDONESIAN SWEET

REF: JAKARTA 2282

SUMMARY. RANKING CABINET SOURCE REPORTS THAT PHILIPPINE S SIGNED CONTRACT IN JANUARY FOR FUTURE DELIVERY OF 15 MILLION BARRELS OF INDONESIAN CRUDE AT \$11.10 A BARREL. GOP AGREED TO MAKE FULL PAYMENT IN JANUARY 1975 IN ORDER TO ACCOMMODATE PERTAMINA DESIRE FOR HARD CASH TO MEET ITS CASH FLOW PROBLEM. PUBLIC SIGNING OF CONTRACT WAS SUBSEQUENTLY ARRANGED ON FEBRUARY 20 BETWEEN FIRST LADY AND GENERAL IBNU SUTOWO. GRANTING SLIGHT EDGE PERTAMINA CONCEDED ON PRICE, INDONESIAN OIL DEAL REVEALS GOP IS WILLING TO PAY FOR DIVERSIFYING ITS OIL SOURCES.

1. DURING DISCUSSION PHILIPPINE FINANCIAL SITUATION AT LUNCHEON IN HONOR OF EXIMBANK DIRECTOR JOHN CLARK ON FEBRUARY 26, SECRETARY OF FINANCE VIRATA REVEALED THAT BALANCE OF PAYMENTS REGISTERED HUGE DEFICIT IN JANUARY BECAUSE GOP HAD TO MAKE LARGE CASH PAYMENT IN THAT MONTH TO PERTAMINA FOR 15 MILLION BARRELS OF OIL. OIL WILL BE DELIVERED BEGINNING LATTER HALF OF THE YEAR AND ENDING EARLY 1976. GOP GAVE IN TO PERTAMINA INSISTENCE ON IMMEDIATE PAYMENT SINCE PERTAMINA HAD SEVERE CASH FLOW PROBLEM. TO DO SO, CONFIDENTIAL

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HOWEVER, GOP HAD TO DRAW ON IMF FACILITY.

2. VIRATA STATED THAT PRICE WAS \$11.10 A BARREL, SLIGHTLY LESS THAN CURRENT PRICE CHARGED JAPANESE BY PERTAMINA. PAYMENT IN JANUARY WAS THUS ON ORDER OF \$168 MILLION. THERE WAS NO MENTION OF POLITICS DURING THE DISCUSSION, AND VIRATA RECOUNTED THE OIL DEAL AND TOUCHED ON PERTAMINA'S PROBLEMS RESULTING FROM ITS FREEWHEELING OPERATIONS IN HIS USUAL MATTER-OF-FACT STYLE.

3. INTERESTINGLY, THE INDONESIAN OIL DEAL WAS PUBLICIZED ONLY RECENTLY ON FEBRUARY 20 IN A SPEECH BY PRESIDENT MARCOS AND IN A CEREMONY DURING WHICH THE FIRST LADY SIGNED FOR THE GOP AND PNOC, AND GENERAL IBNU SUWOTO FOR THE GOI AND PERTAMINA. THE PRESS REPORTS WERE VAGUE, SIMPLY STATING THAT THE CONTRACT WAS IN LINE WITH THE GOP POLICY TO DIVERSIFY OIL SOURCES AND THAT IT PROVIDED FOR "THE SUPPLY OF A SUBSTANTIAL AMOUNT OF OIL AT PREMIUM PRICES BY PERTAMINA FOR ONE YEAR." THIS PUBLICITY FOLLOWED EARLIER FIRST LADY SIGNATURES OF AGREEMENTS FOR CHINESE OIL (WITH DISAPPOINTING RESULTS) AND FOR MEXICAN OIL WITH NO VISIBLE RESULTS). INDONESIAN DEAL THUS EVOKED SOME INITIAL SKEPTICISM AND, IN RETROSPECT, MUST HAVE AMUSED THOSE GOP OFFICIALS WHO CONSUMMATED IT TO HAVE THE FIRST LADY RE-PLAY A WELL-WORN SCENARIO AS COVER FOR THE FIRST REALLY SERIOUS DEAL.

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